

CONFIDENTIAL (FR) CLASS II-FOMC

*Material for
Staff Presentation to the
Federal Open Market Committee*

July 6, 1981

Principal Assumptions

Monetary Policy

- Growth of M1-B of 4¾ percent in 1981, abstracting from shifts into NOWs, and 4¼ percent in 1982

Fiscal Policy

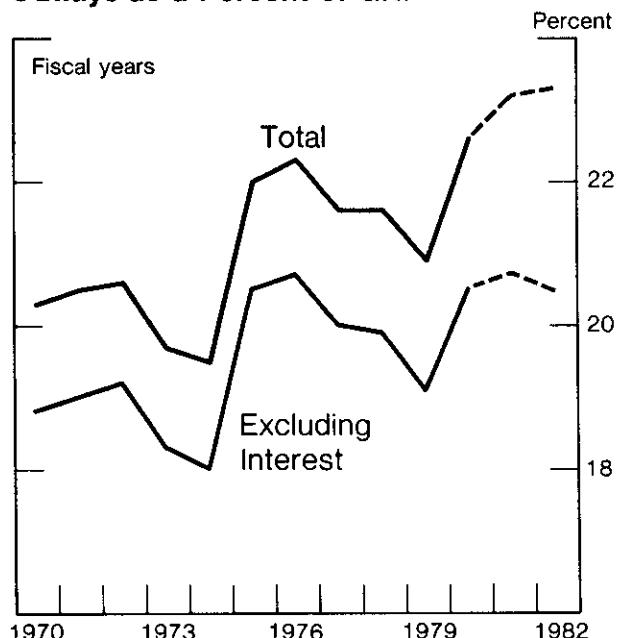
- Unified budget expenditures of \$663 billion in FY 1981 and \$725 billion in FY 1982
- Personal and business tax cuts
Personal cuts of \$27 billion in FY 1982
Business cuts of \$8 billion in FY 1982

Federal Budget

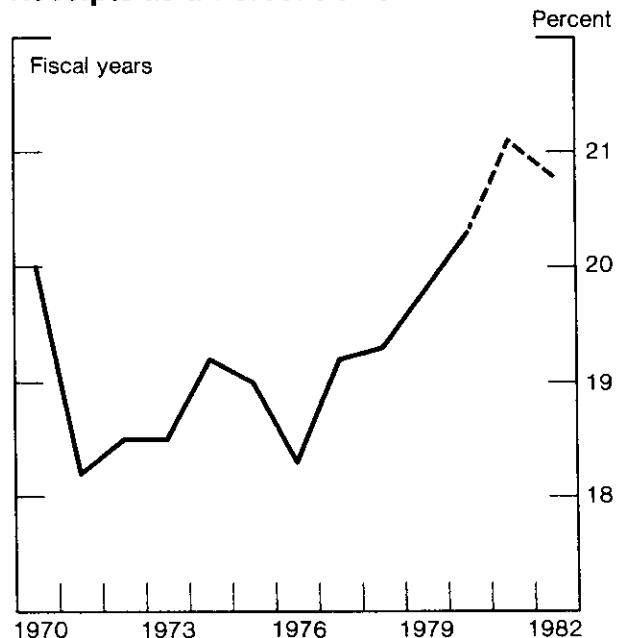
Fiscal Years, Unified Budget Basis

	<u>1980</u>		<u>1981</u>		<u>1982</u>	
	Billions of Dollars	Percent Change	Billions of Dollars	Percent Change	Billions of Dollars	Percent Change
Outlays	\$ 580	17%	\$ 663	14%	\$ 725	9%
Receipts	\$ 520	12	\$ 603	16	\$ 646	7
Deficit	\$ 60		\$ 60		\$ 79	

Outlays as a Percent of GNP



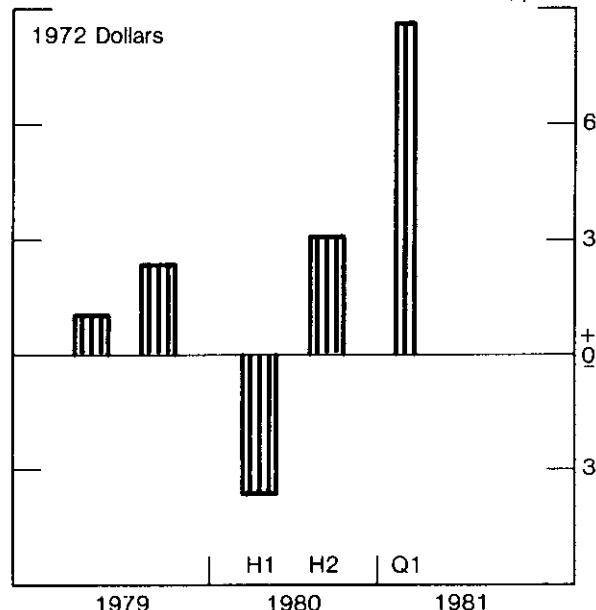
Receipts as a Percent of GNP



Economic Activity

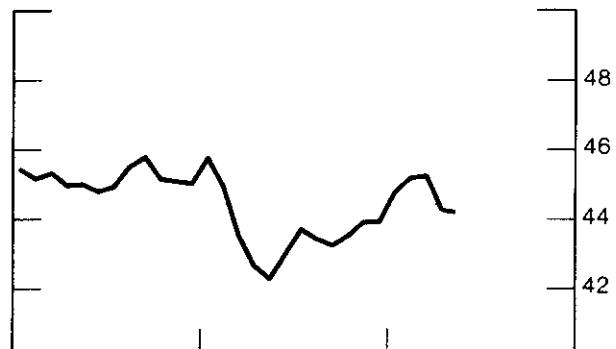
Real GNP

Change from end of previous period,
annual rate, percent



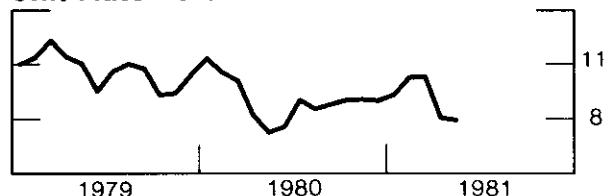
Real Retail Sales

Billions of 1972 dollars



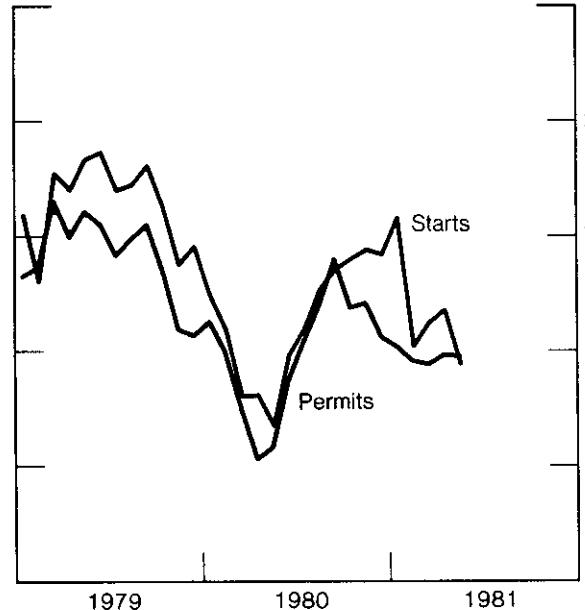
Unit Auto Sales

Millions of units



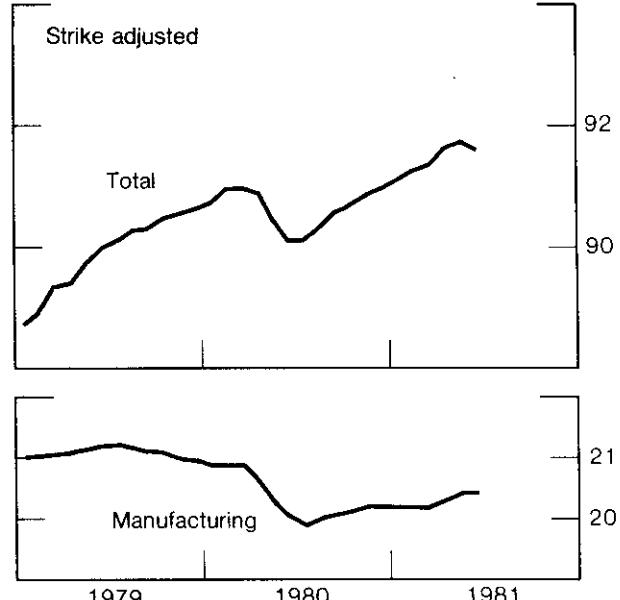
Housing Starts and Permits

Millions of units



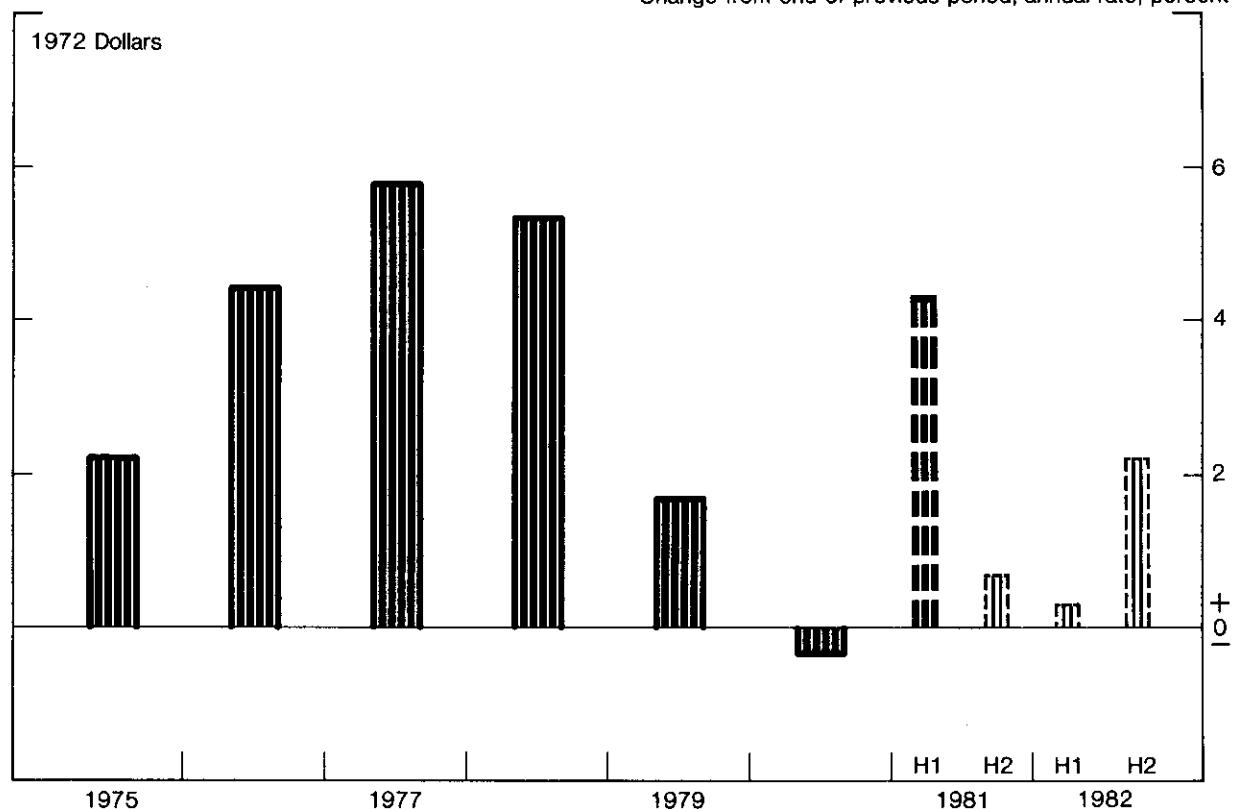
Nonfarm Payroll Employment

Millions of workers



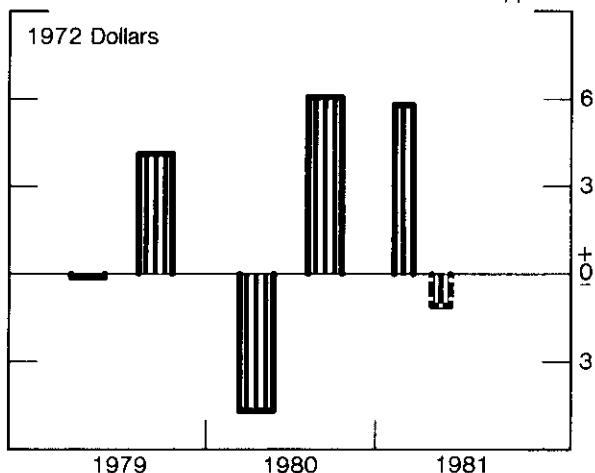
Real GNP

Change from end of previous period, annual rate, percent



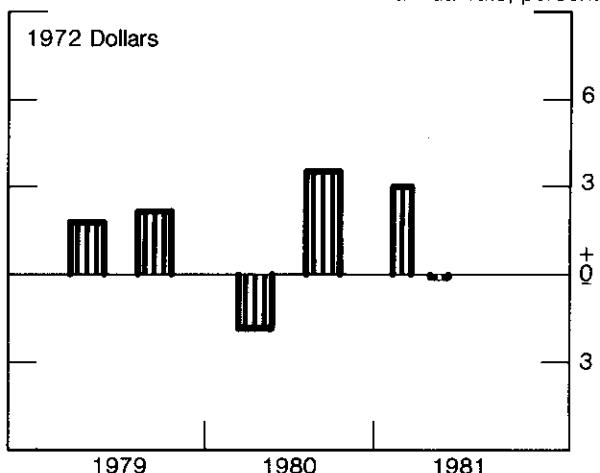
Real Personal Consumption Expenditures

Change from previous period,
annual rate, percent



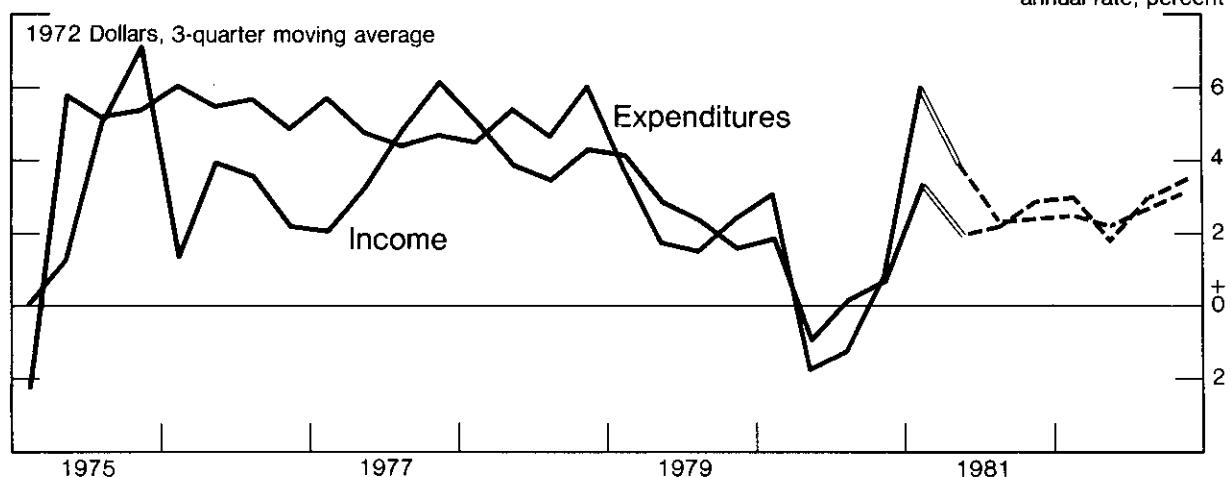
Real Disposable Personal Income

Change from previous period,
annual rate, percent



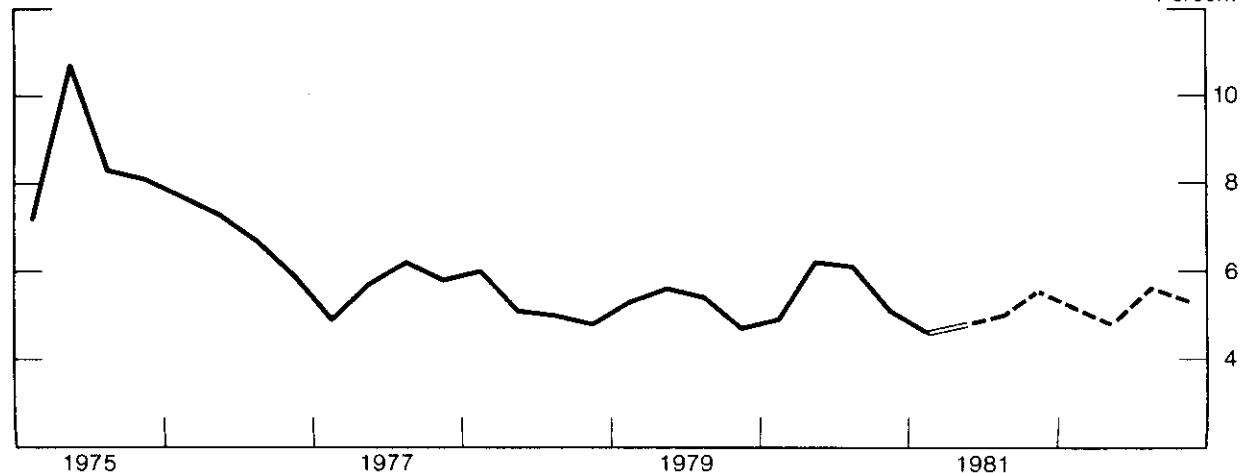
Real Disposable Personal Income and Consumption Expenditures

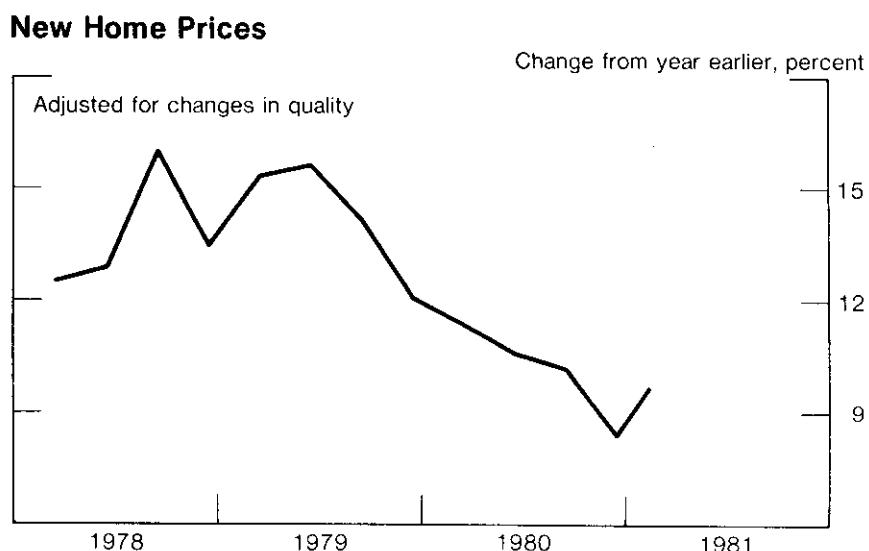
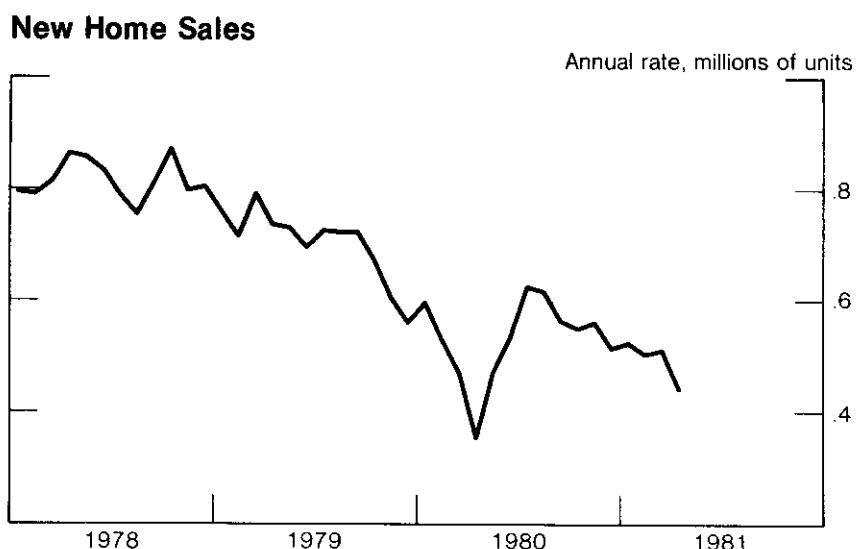
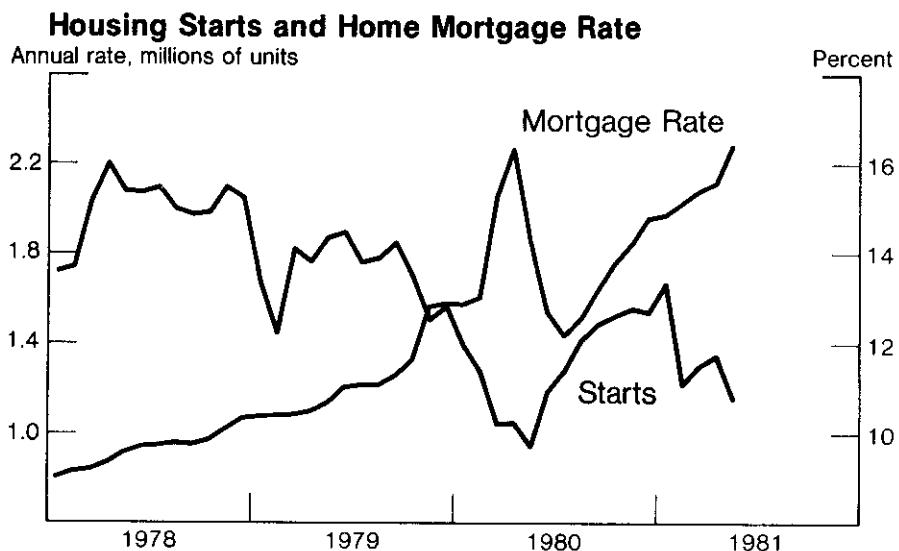
Change from previous period,
annual rate, percent



Saving Rate

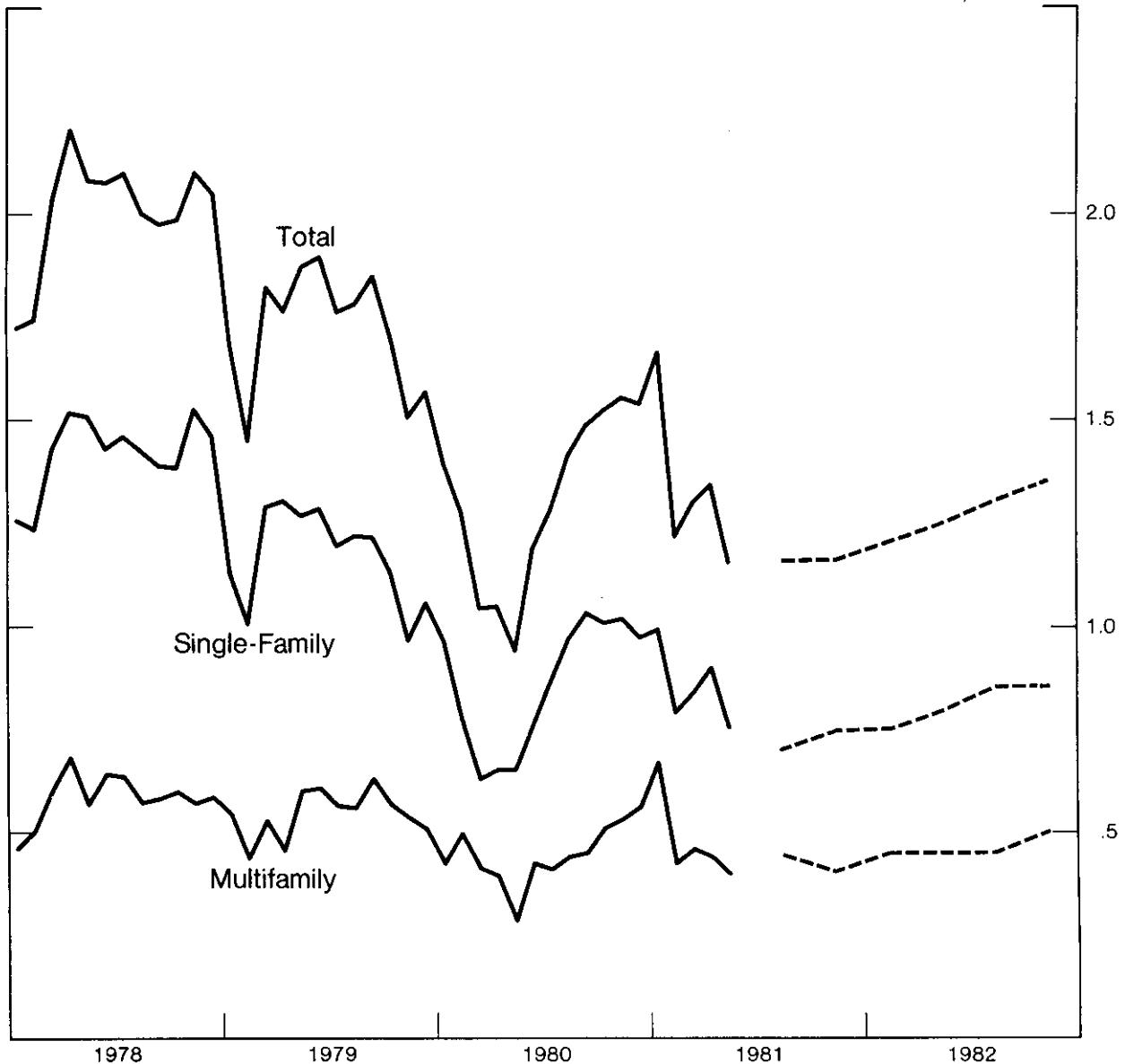
Percent



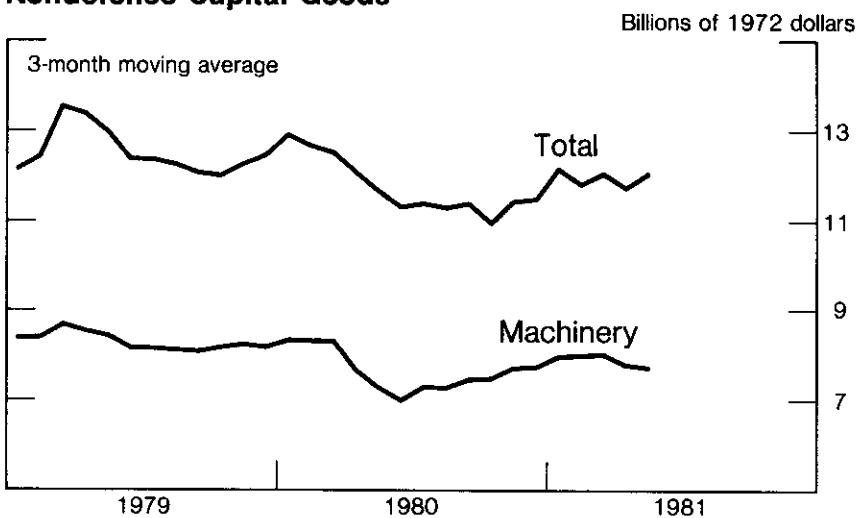


Housing Starts

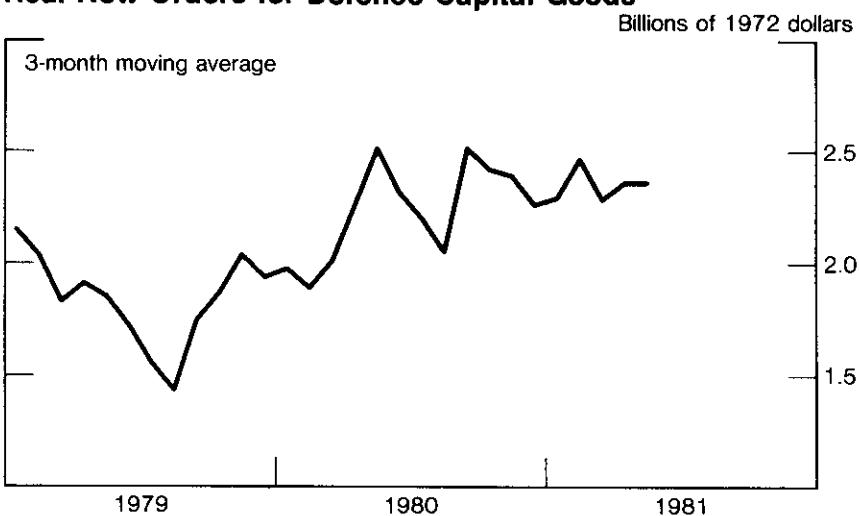
Annual rate, millions of units



Real New Orders for Nondefense Capital Goods



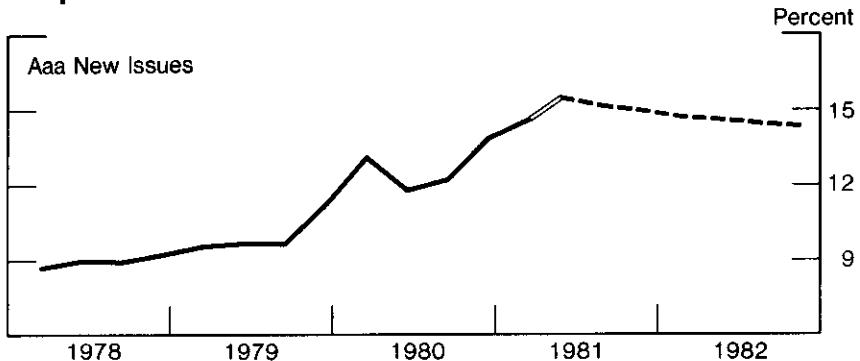
Real New Orders for Defense Capital Goods



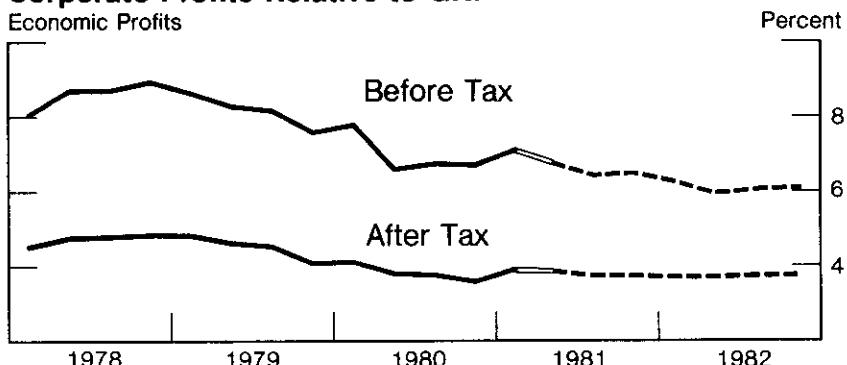
Business Construction Contracts



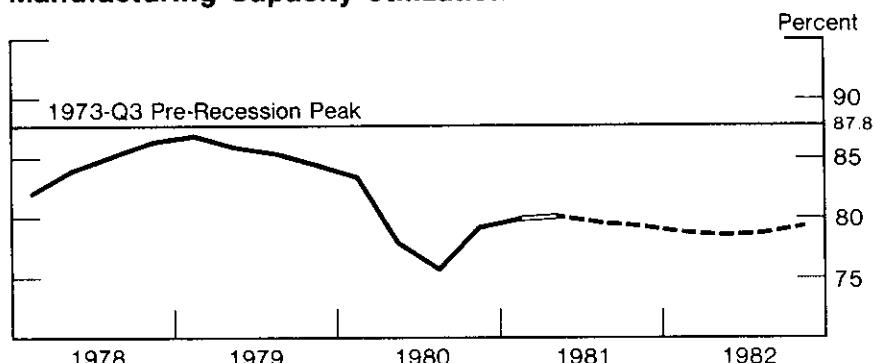
Corporate Bond Rate



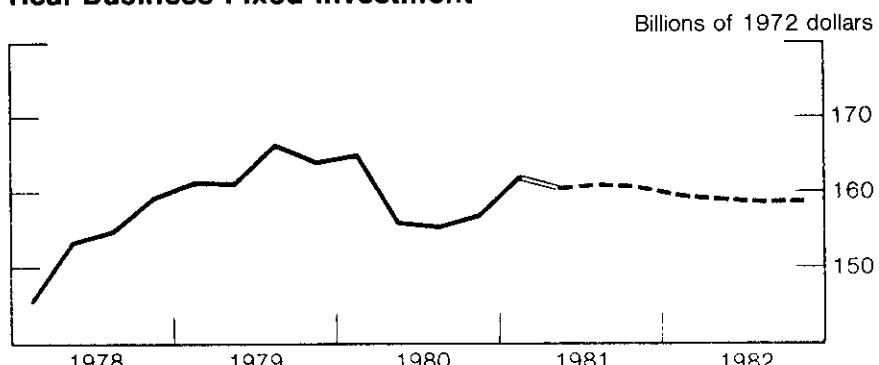
Corporate Profits Relative to GNP



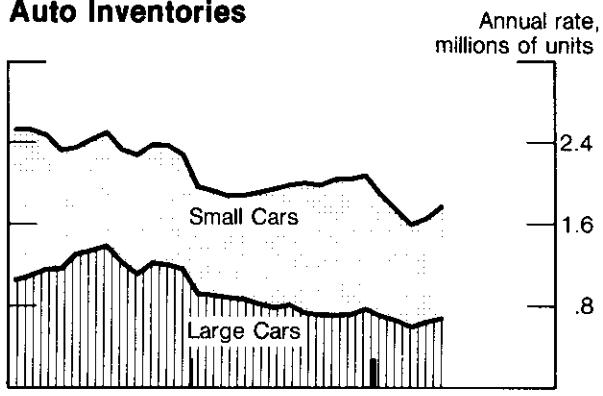
Manufacturing Capacity Utilization



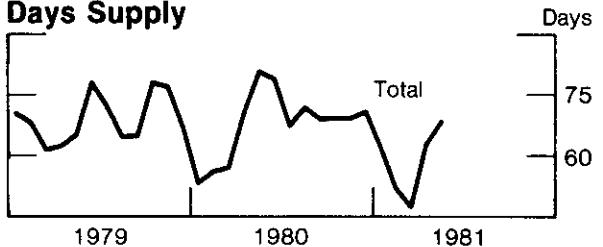
Real Business Fixed Investment



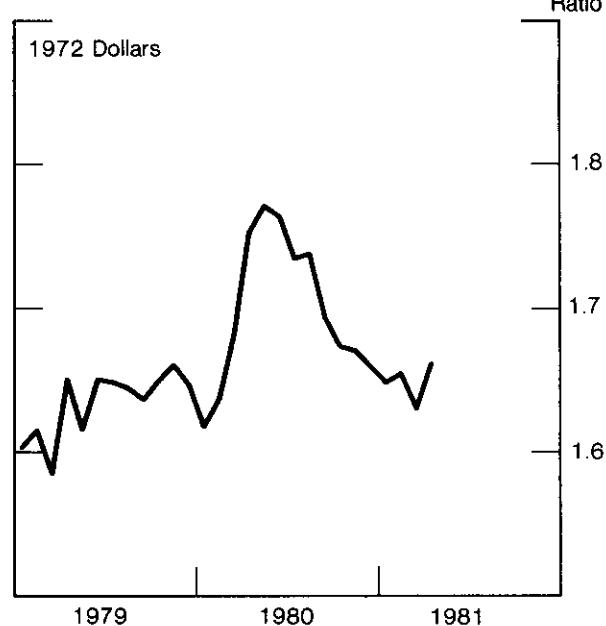
Auto Inventories



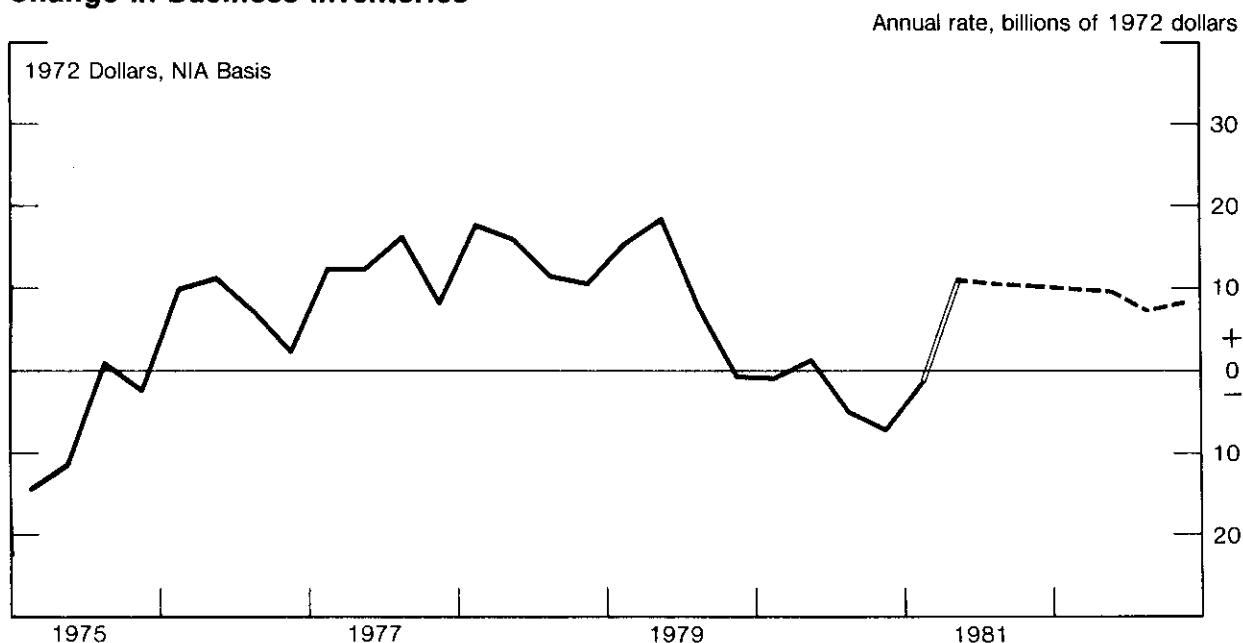
Days Supply



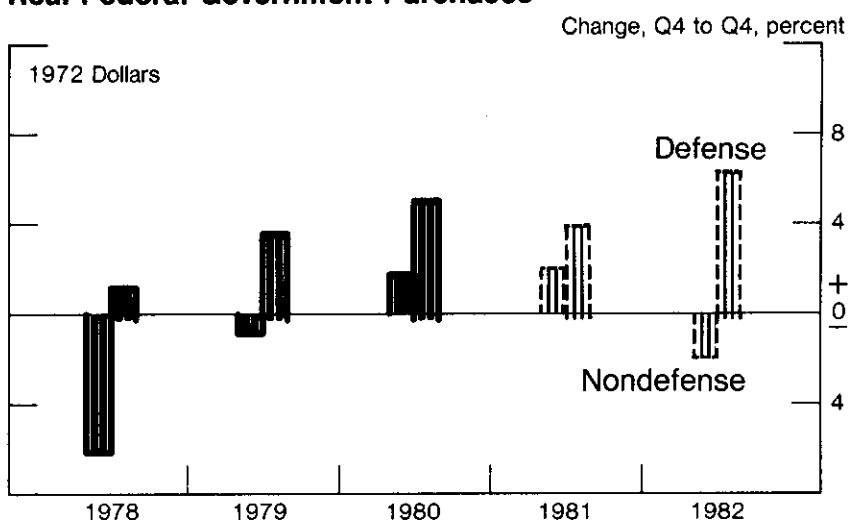
Manufacturing and Trade Inventories Relative to Sales



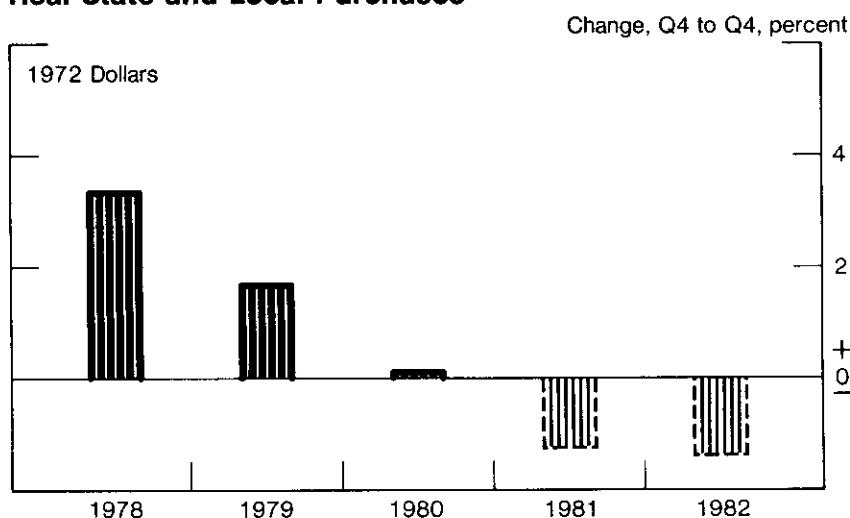
Change in Business Inventories



Real Federal Government Purchases



Real State and Local Purchases



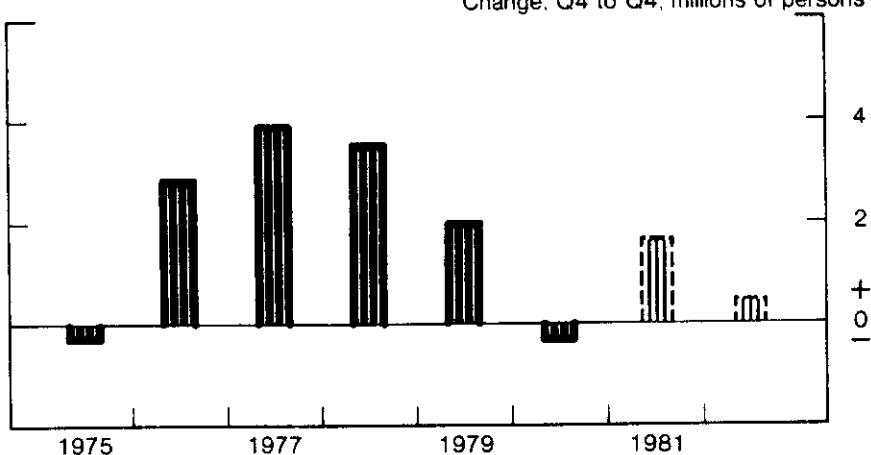
Real Total Government Purchases

1972 Dollars
Change, Q4 to Q4, Percent

1977	3.6
1978	1.6
1979	1.9
1980	1.6
1981P	0.4
1982P	0.6

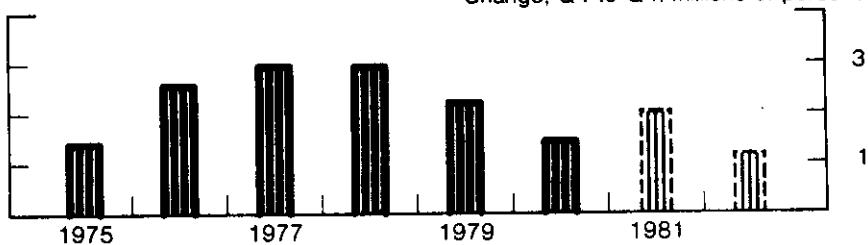
Total Employment

Change, Q4 to Q4, millions of persons



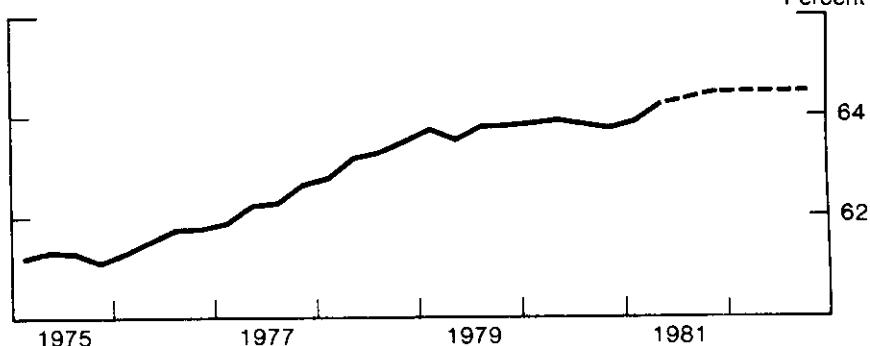
Civilian Labor Force

Change, Q4 to Q4, millions of persons



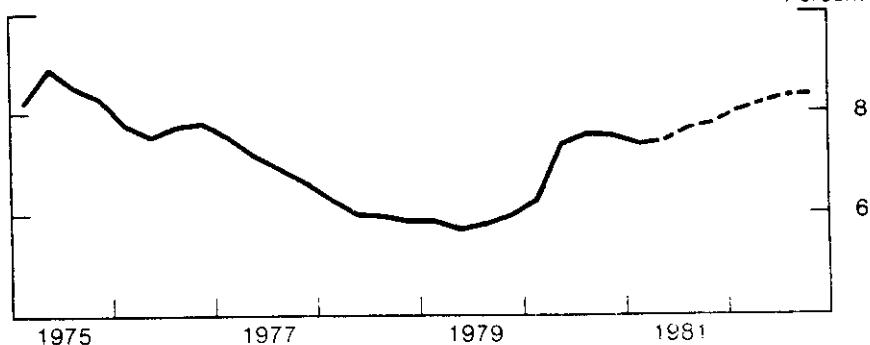
Labor Force Participation Rate

Percent

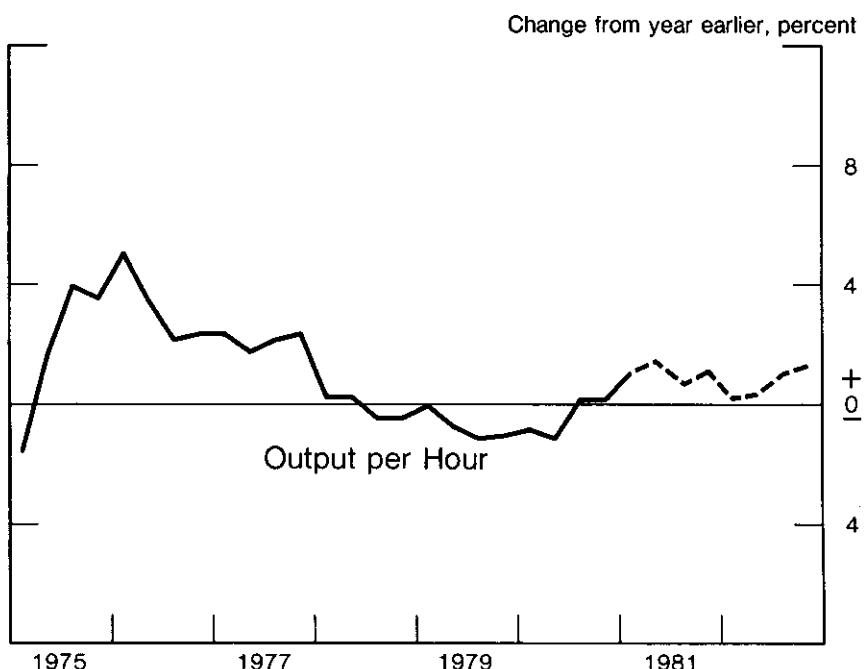
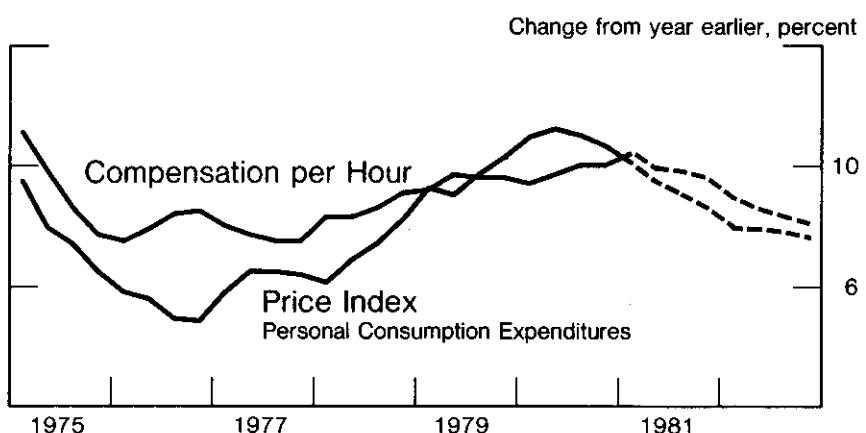


Unemployment Rate

Percent



Unit Cost Indicators Nonfarm Business Sector



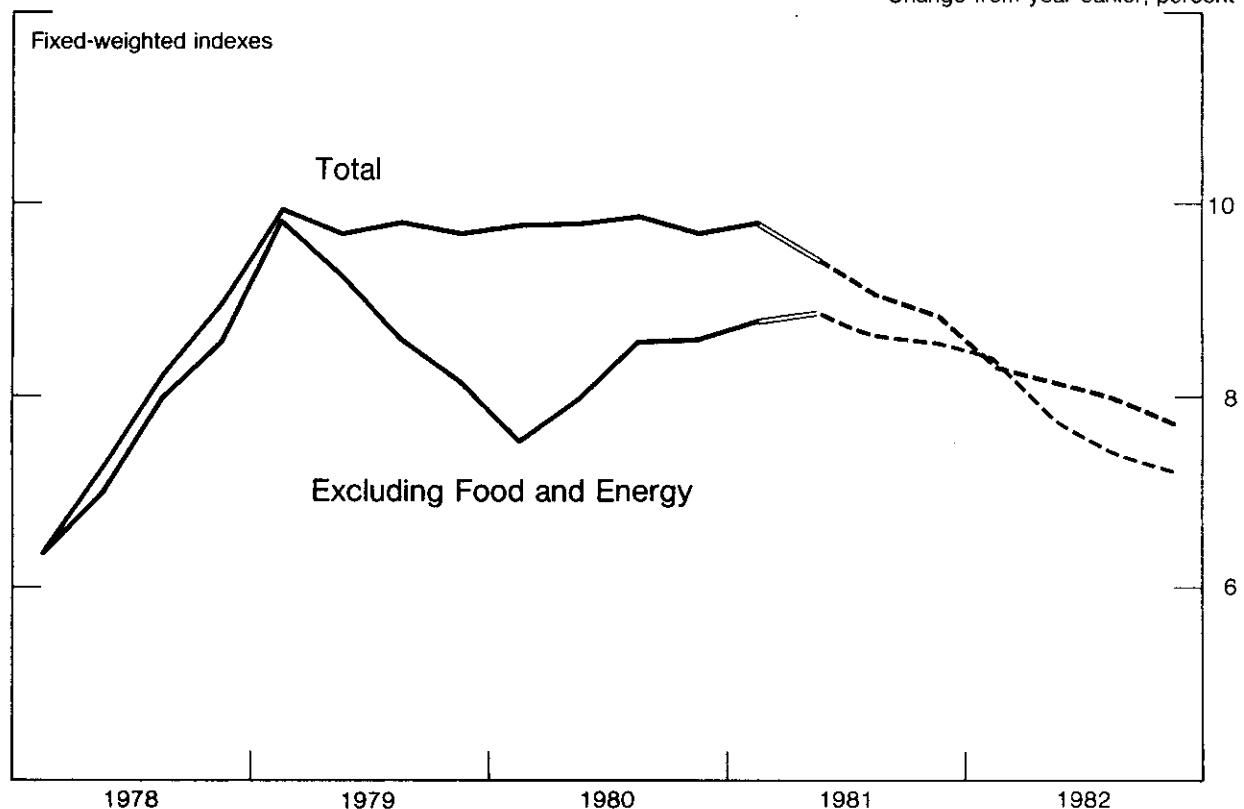
Gross Business Product Prices

Change from year earlier, percent

Fixed-weighted indexes

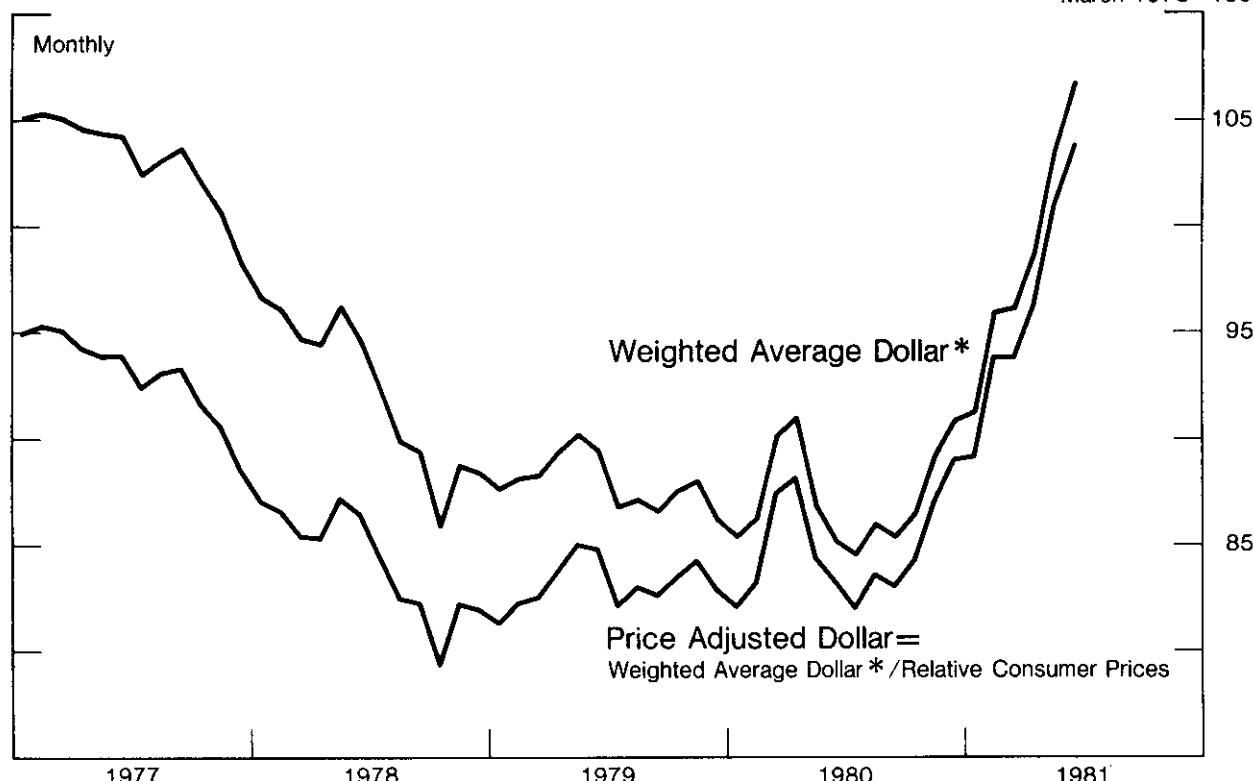
Total

Excluding Food and Energy



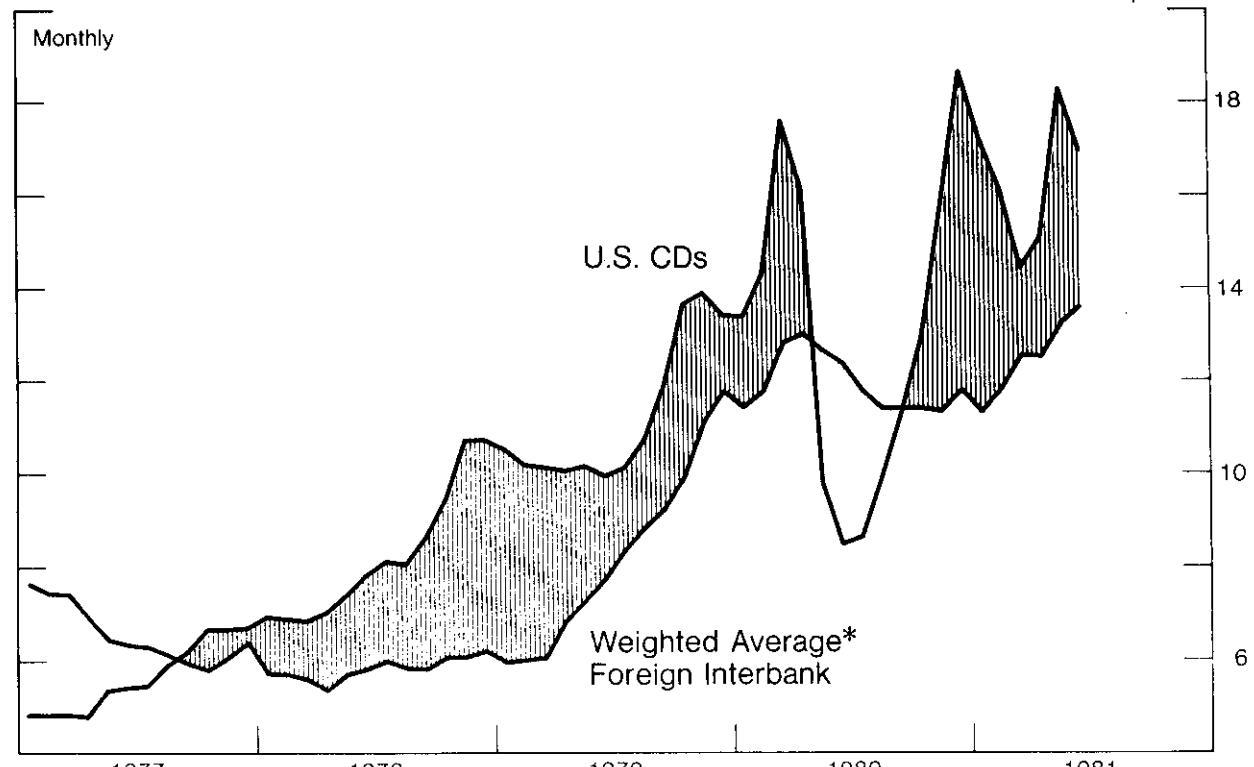
Foreign Exchange Value of the U.S. Dollar

March 1973 = 100



Short-Term Interest Rates

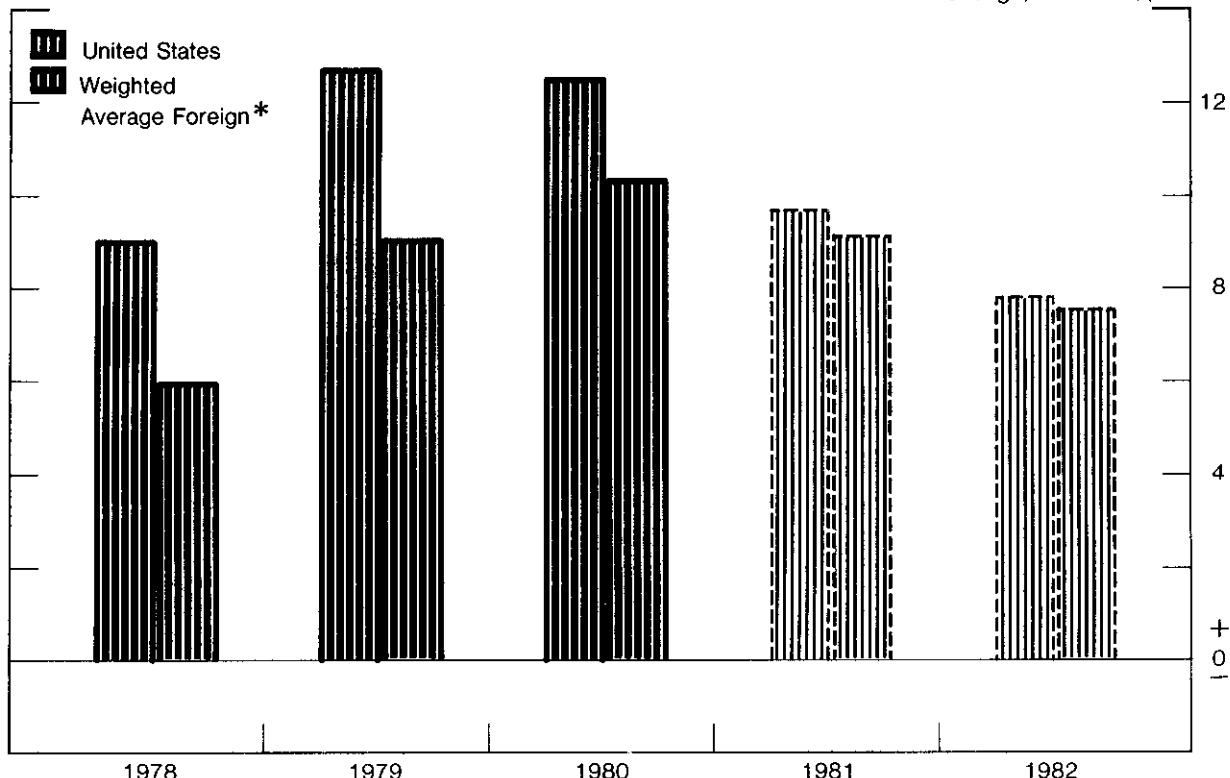
Percent per annum



**Weighted average against or of G-10 countries plus Switzerland using total 1972-76 average trade of these countries.

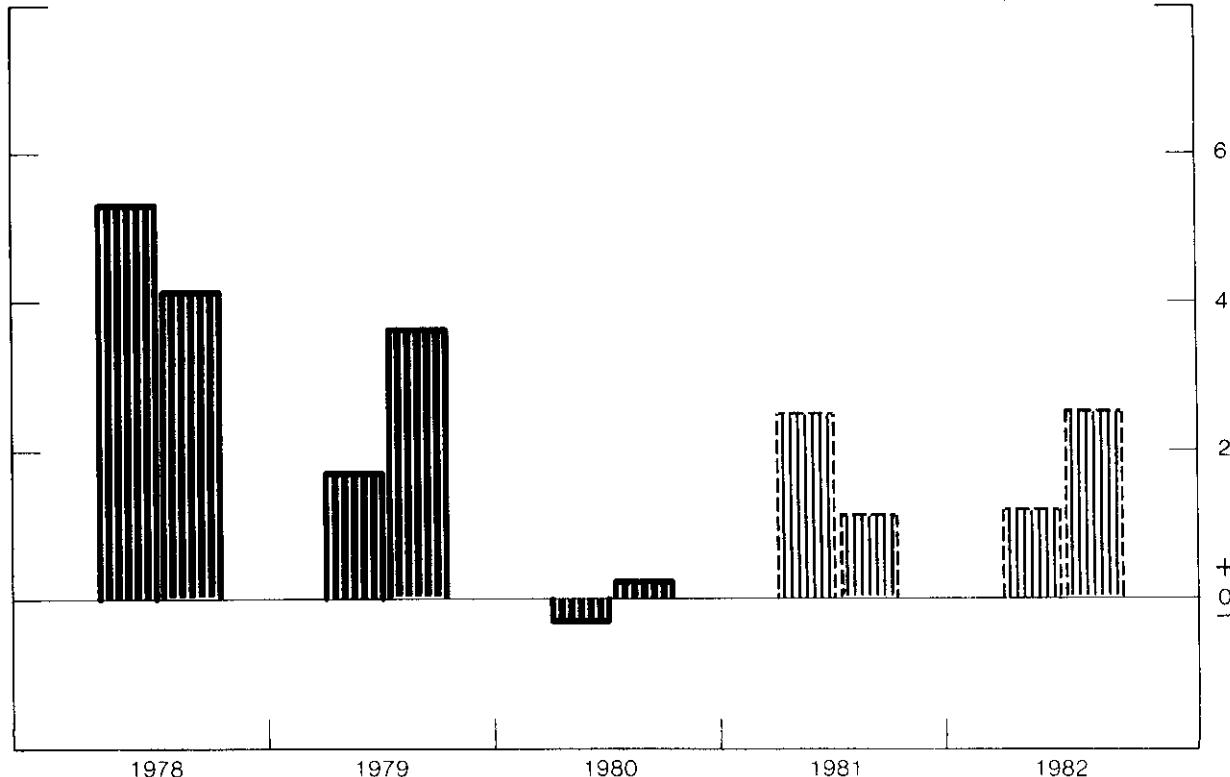
Consumer Prices

Change, Q4 to Q4, percent



Real GNP

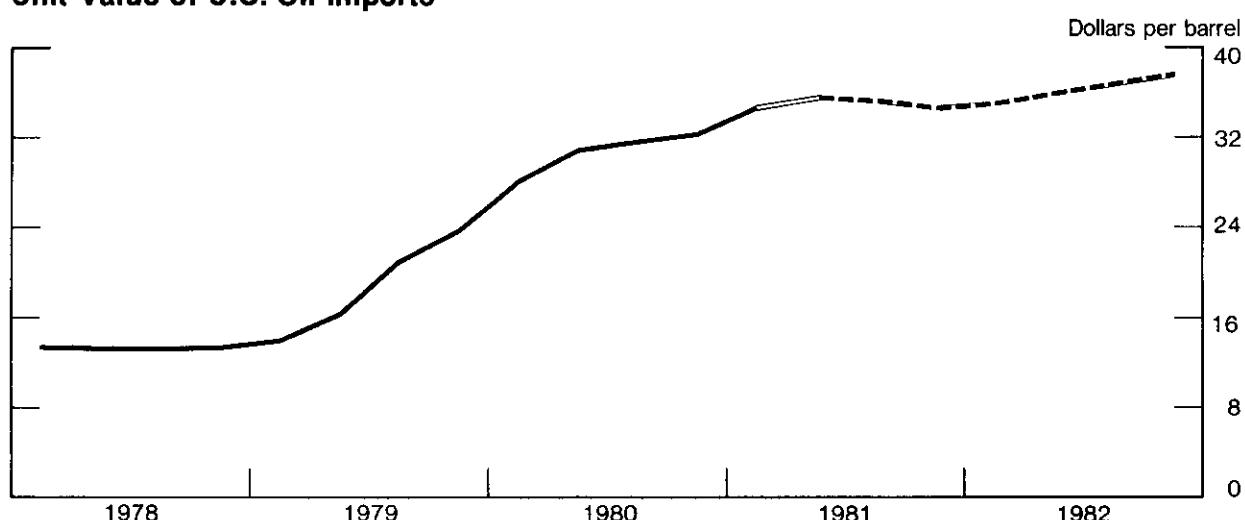
Change, Q4 to Q4, percent



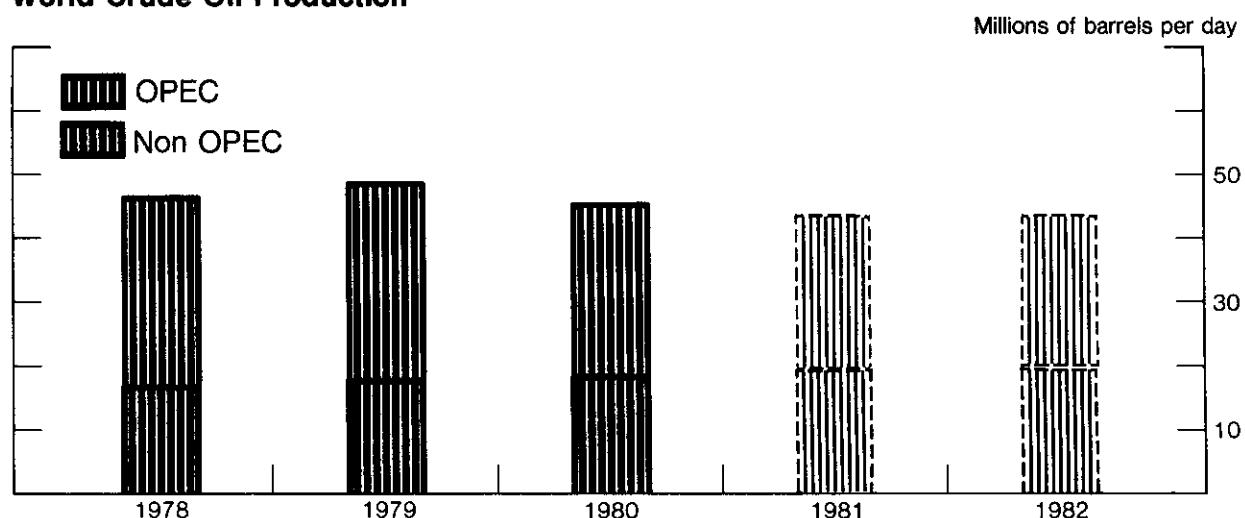
* Weighted average of G-10 countries plus Switzerland using total 1972-76 average trade of these countries

International Oil Market Developments

Unit Value of U.S. Oil Imports



World Crude Oil Production*



U.S. Oil Imports

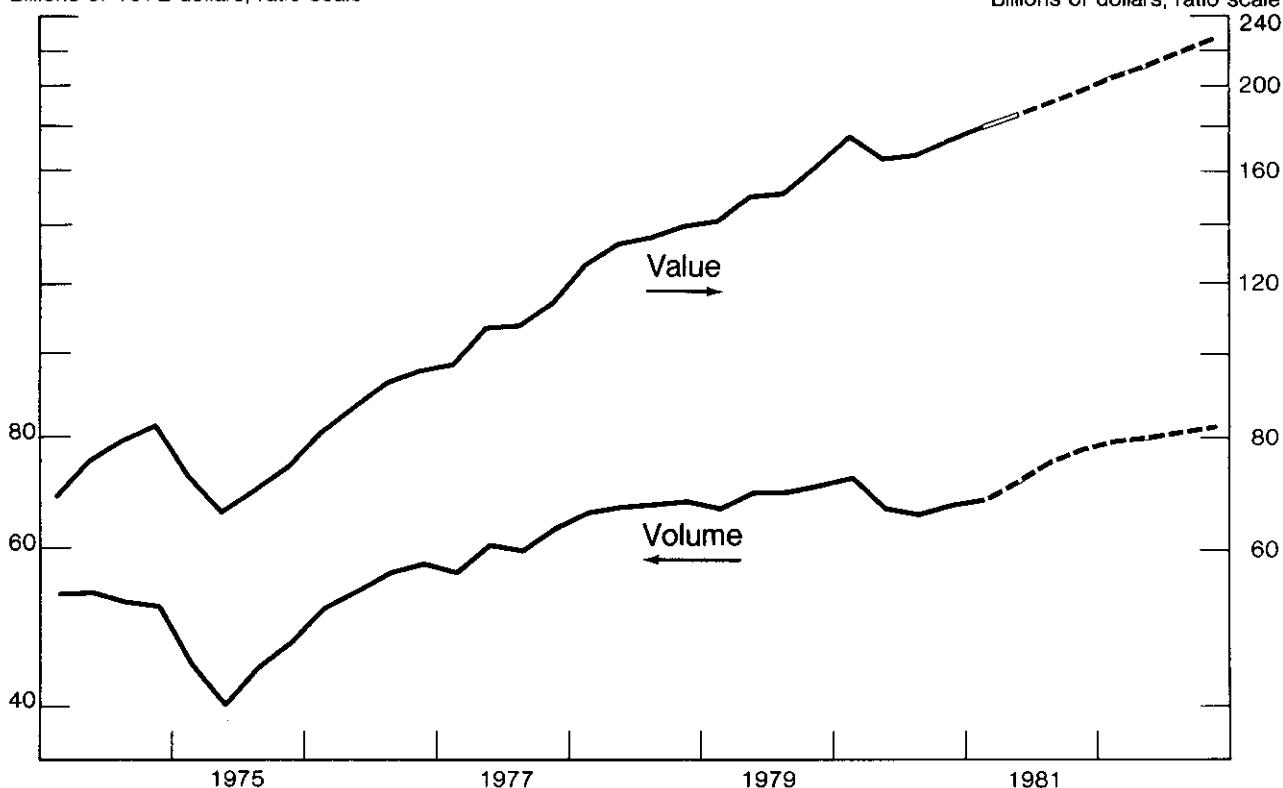


*Excluding the USSR and China.

Non-Oil Imports

Billions of 1972 dollars, ratio scale

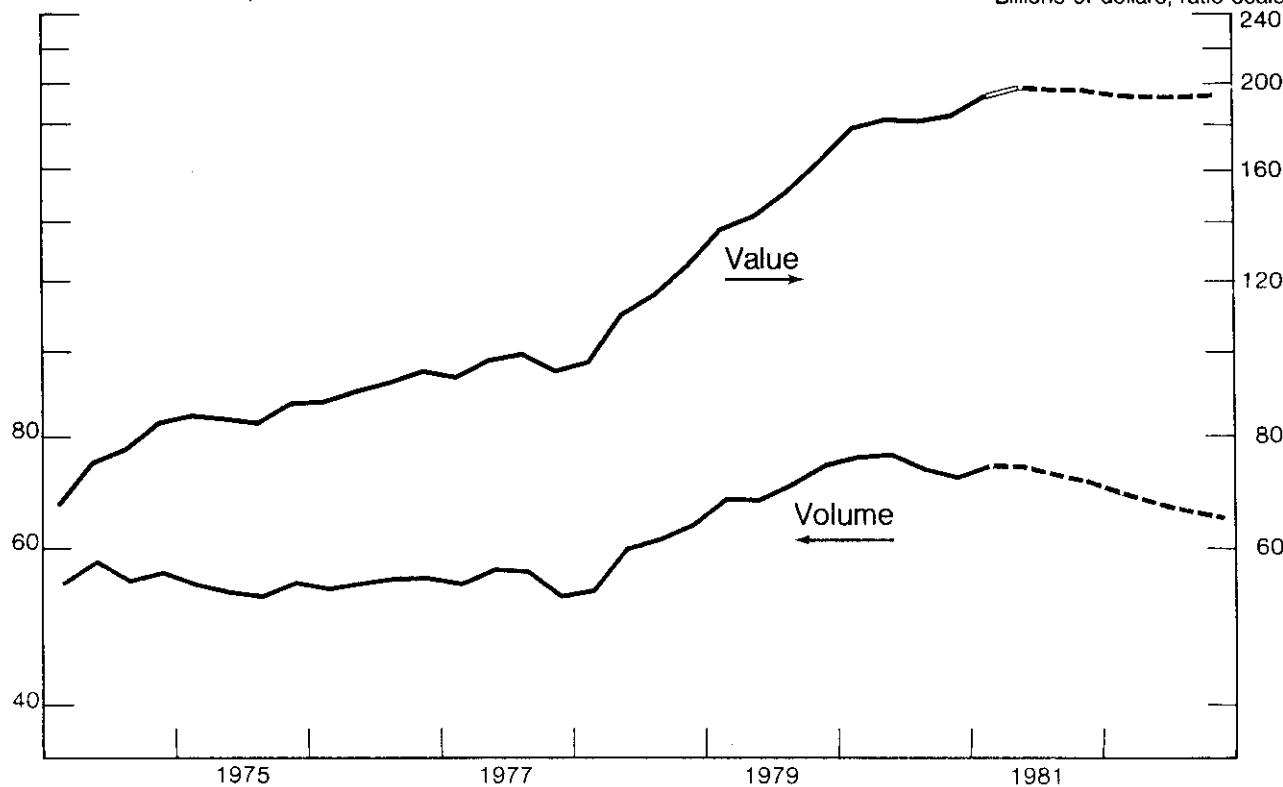
Billions of dollars, ratio scale



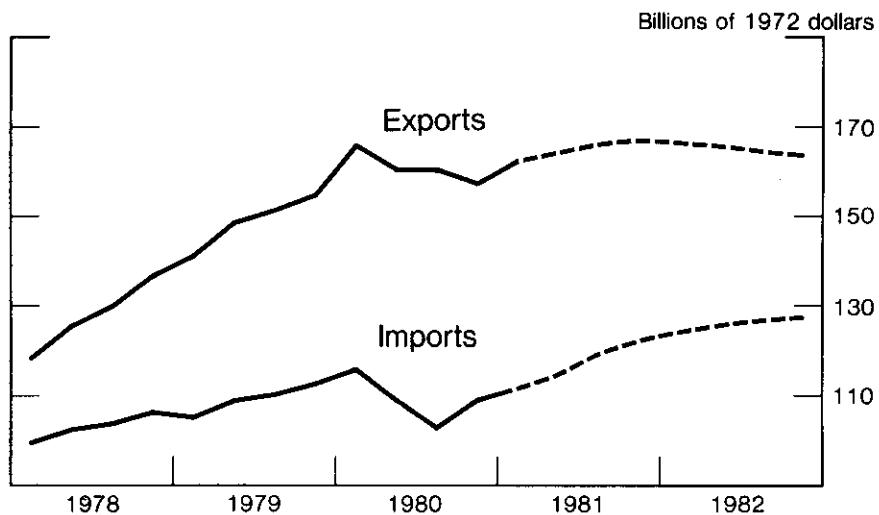
Nonagricultural Exports

Billions of 1972 dollars, ratio scale

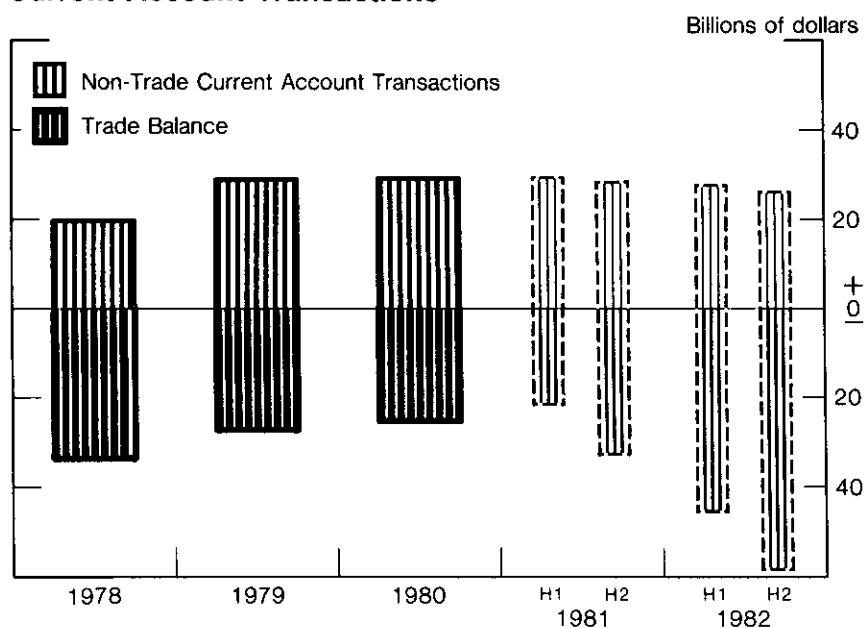
Billions of dollars, ratio scale



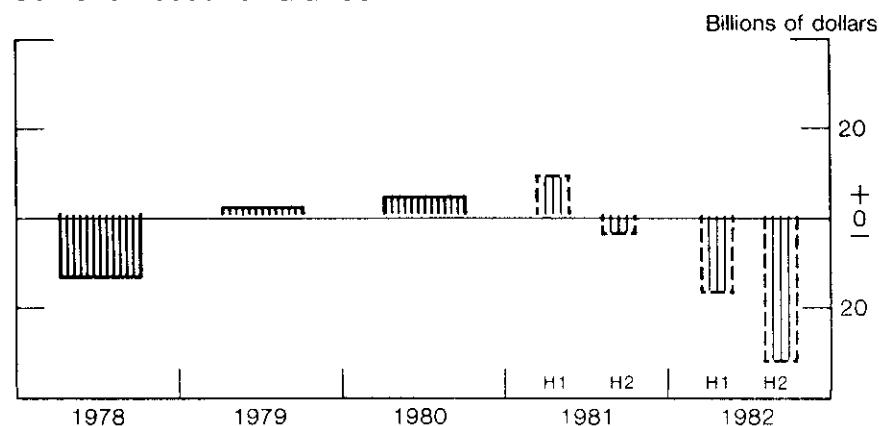
GNP Exports and Imports of Goods and Services



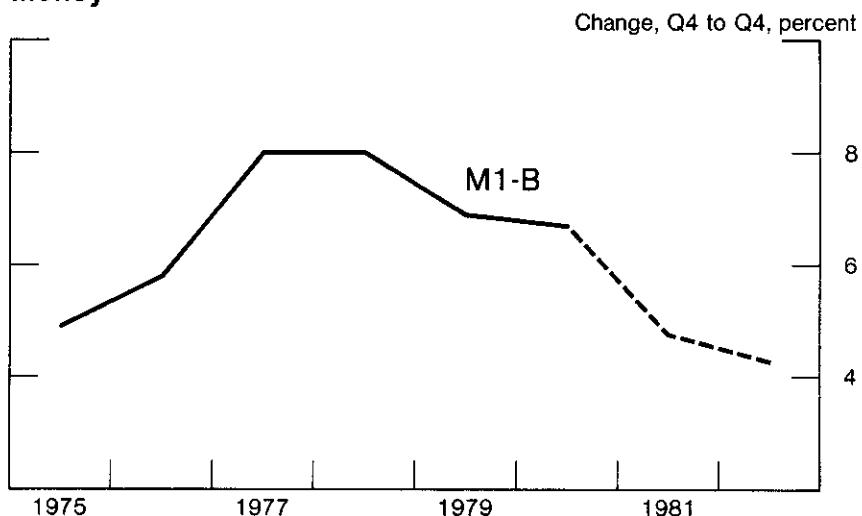
Current Account Transactions



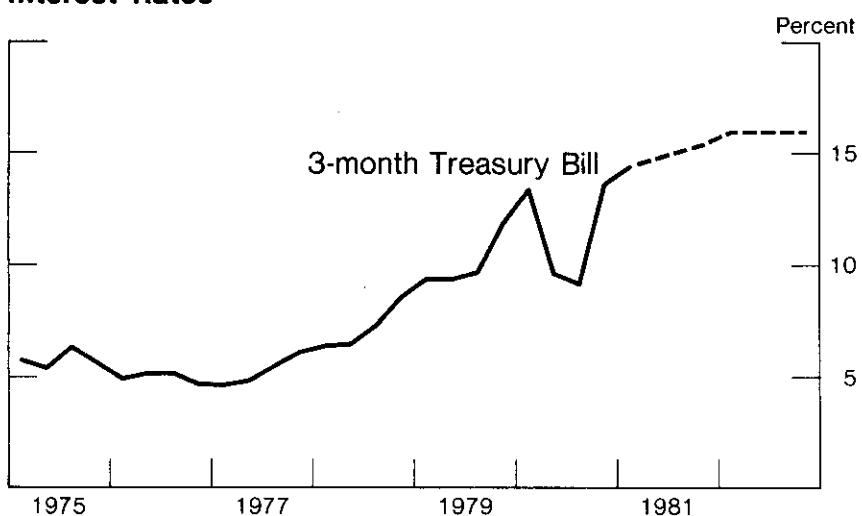
Current Account Balance



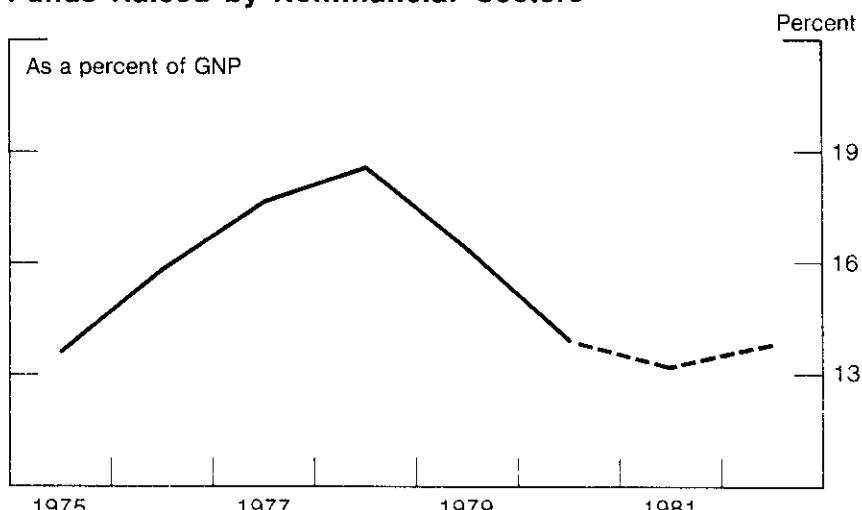
Money *



Interest Rates



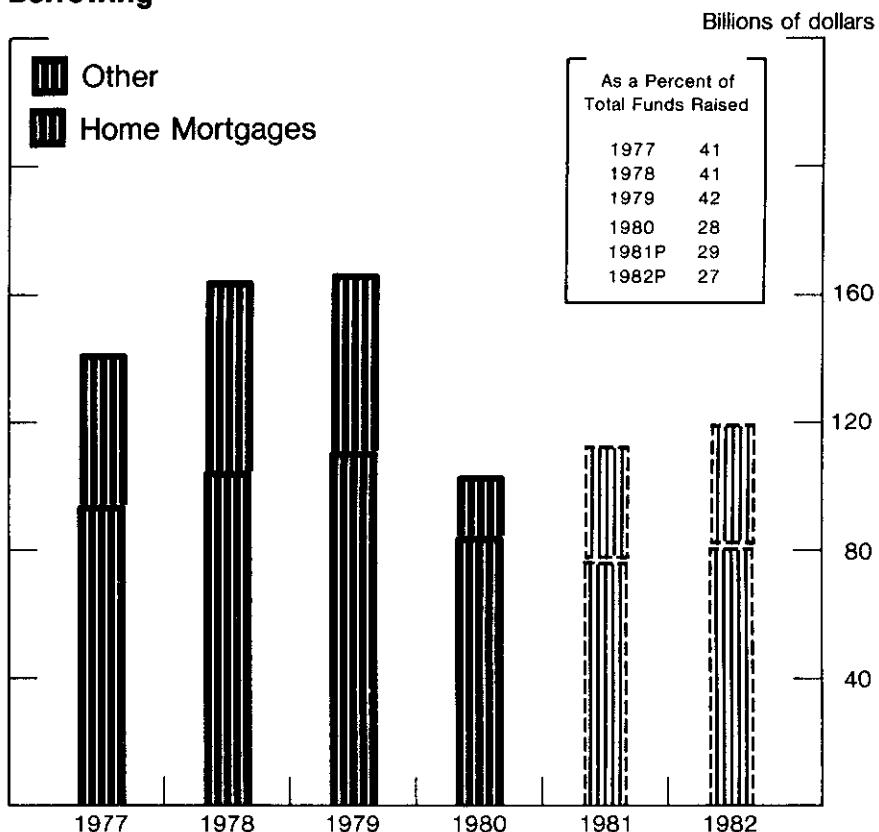
Funds Raised by Nonfinancial Sectors



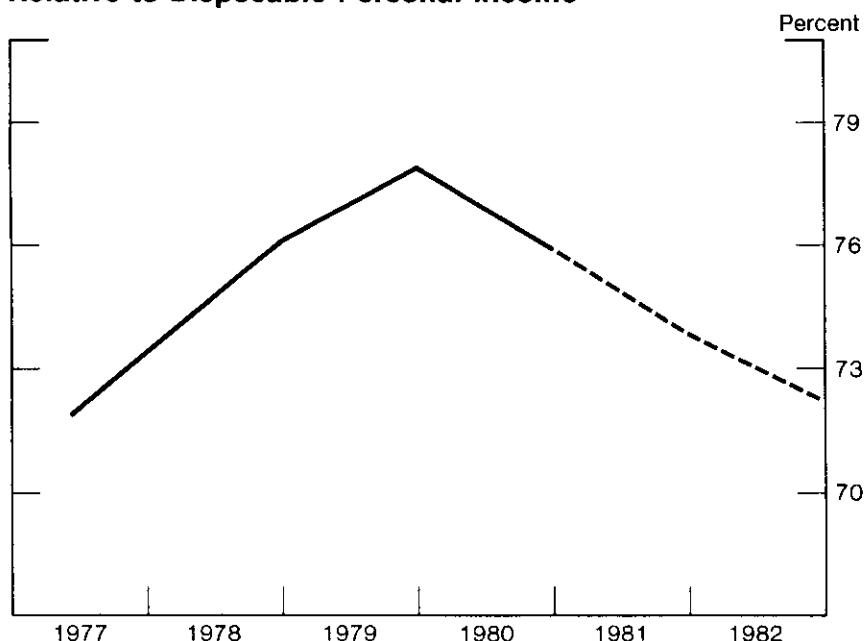
* Abstracting from shifts into ATS and NOW accounts.

Households

Borrowing

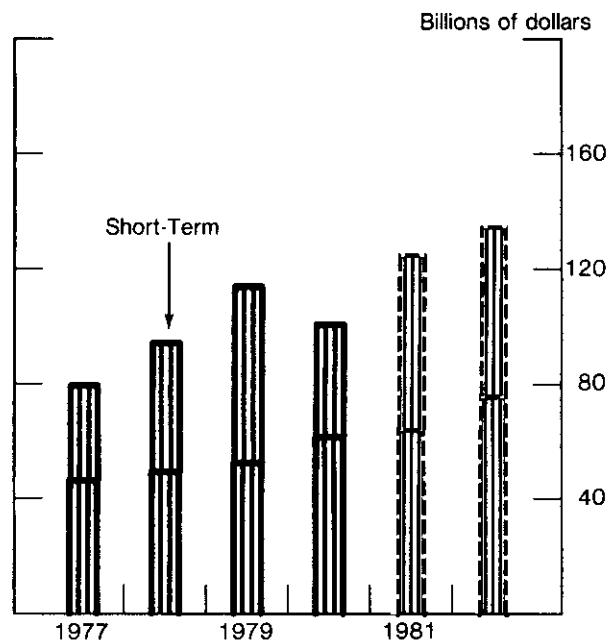


Total Debt Outstanding Relative to Disposable Personal Income

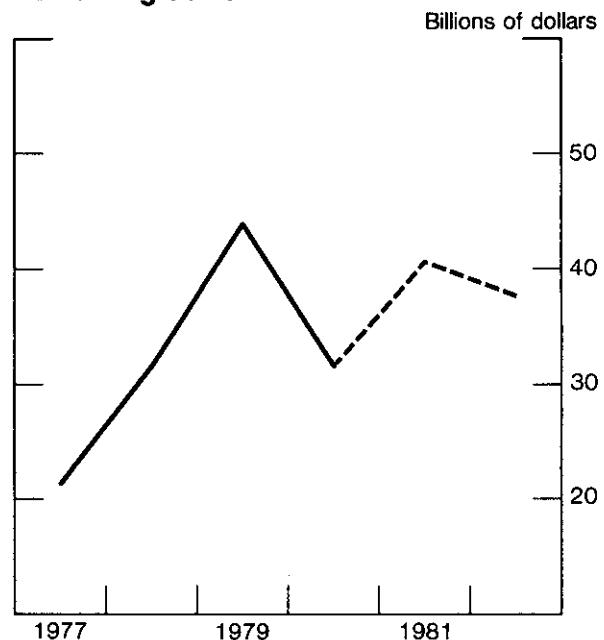


Nonfinancial Corporations

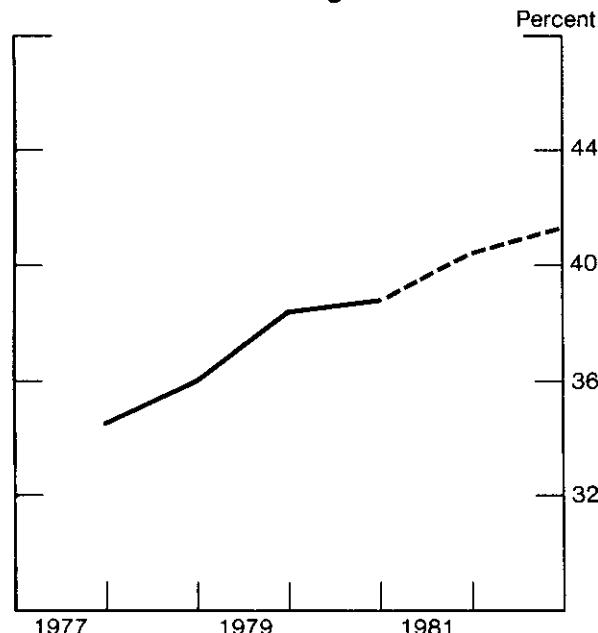
Funds Raised



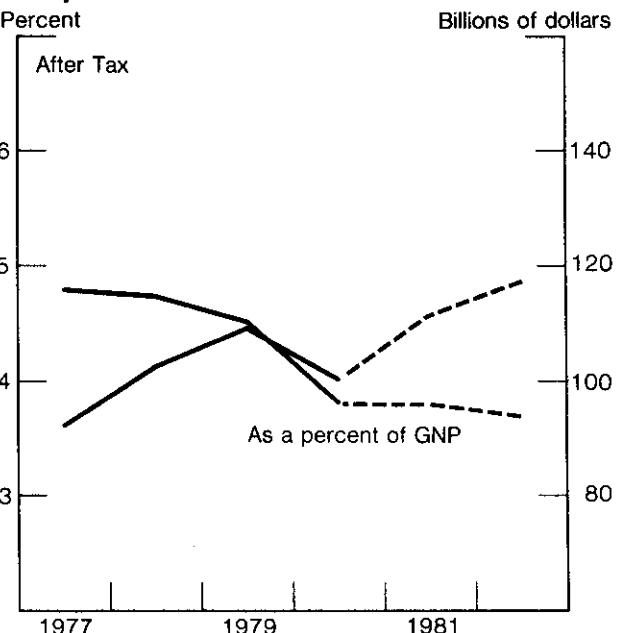
Borrowing at Banks



Short-Term Debt Relative to Total Debt Outstanding



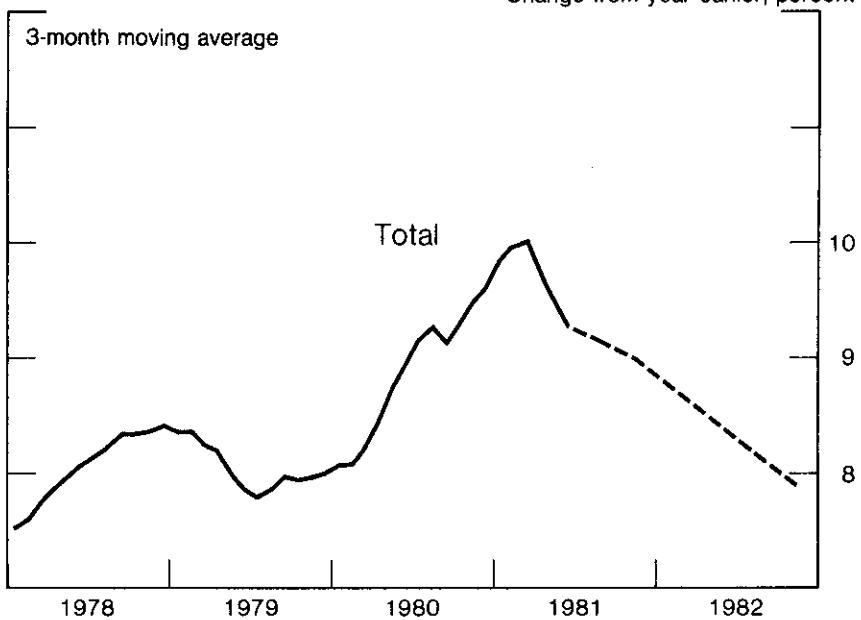
Corporate Profits



Average Hourly Earnings Index

Nonfarm Business Sector

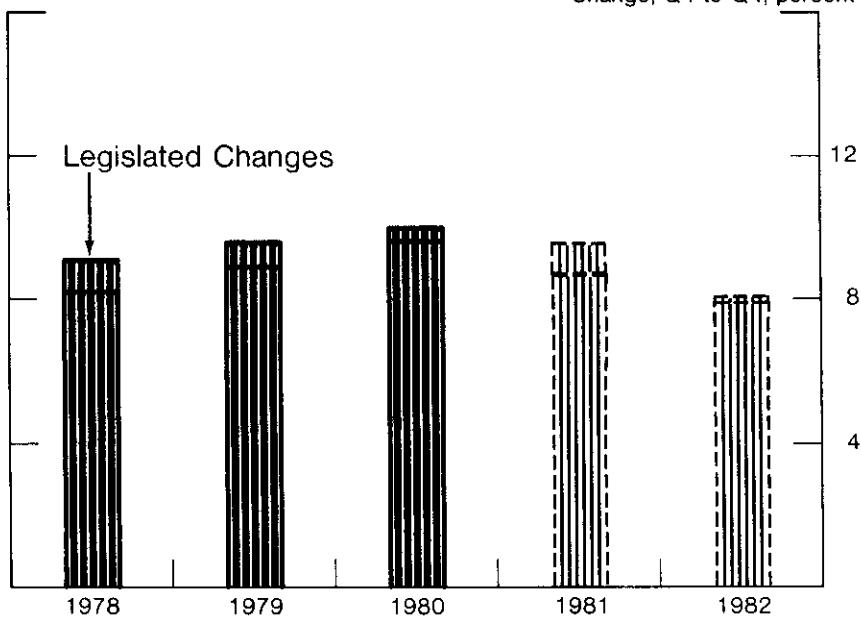
Change from year earlier, percent



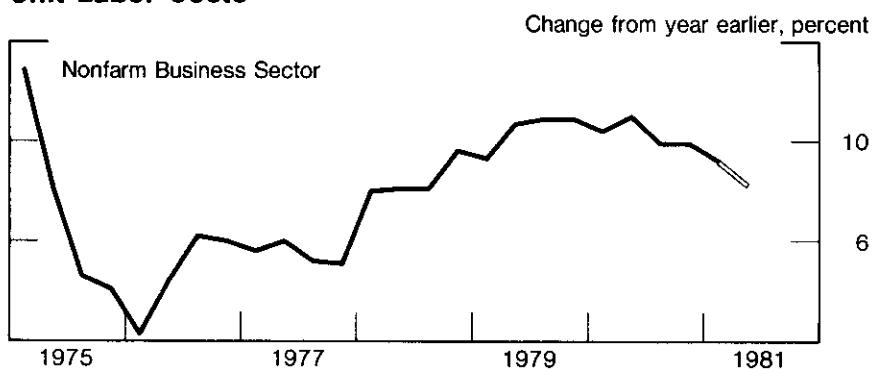
Hourly Compensation

Nonfarm Business Sector

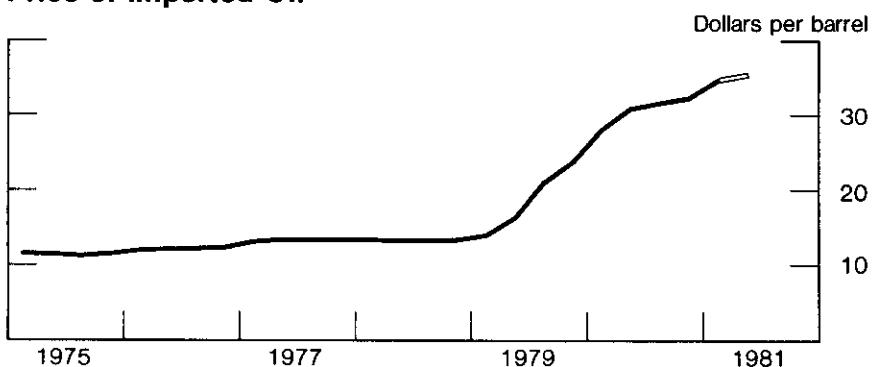
Change, Q4 to Q4, percent



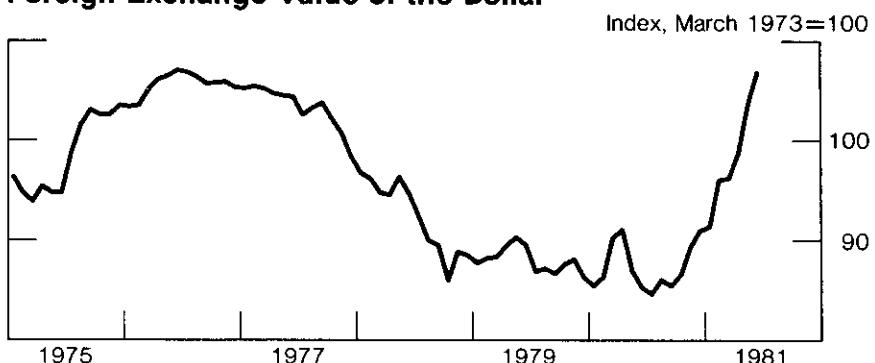
Unit Labor Costs



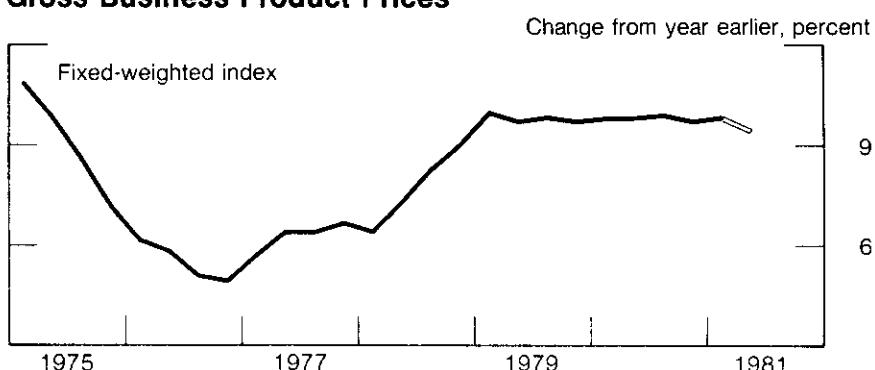
Price of Imported Oil



Foreign Exchange Value of the Dollar



Gross Business Product Prices



Comparison of Staff and Administration* Economic Forecasts

	Percent change, Q4 to Q4			
	1981		1982	
	Staff	Administration	Staff	Administration
Nominal GNP	10.8	11.8	8.4	12.9
Real GNP	2.5	2.5	1.2	5.2
Implicit GNP Deflator	8.1	9.1	7.0	7.3
Unemployment Rate	7.8	7.7	8.3	7.0

Q4 Level

*Preliminary and subject to change.